

Weekly Watch

U.S.

Highlights

24 October 2011
Economic Analysis

U.S.

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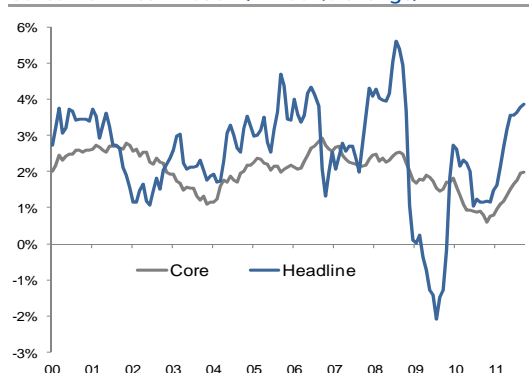
Energy prices drive headline inflation in September

The consumer price index (CPI) in September moderated to 0.3% MoM growth following two months of higher-than-expected inflation. Energy prices were the main driver of headline inflation, up 2% after rising 1.2% in August, mostly due to a 2.9% jump in gasoline prices. Food prices continued to rise in September at 0.4% growth, although at a slower pace than in August. Excluding food and energy, core inflation slowed to 0.1% after holding steady at 0.2% throughout the summer months. Shelter prices led the core components with a moderate 0.1% increase, while medical care, airline fares, and tobacco also increased slightly. Much of the slowing in core inflation was due to apparel prices, which declined 1.1% despite four months of strong gains. Prices for new vehicles remained flat for the third consecutive month, while used cars and trucks fell 0.6%. Over the past 12 months, non seasonally-adjusted headline and core CPI have increased 3.9% and 2.0%, respectively. Although headline inflation has increased more than expected in the past few months, the pass-through to core appears to be shrinking. The core index has hit the Fed's maximum rate in the implicit inflation target range of 1.5-2.0%, however, headline prices will continue to adjust as energy and food inflation declines.

Beige Book suggests uncertainty amid mixed economic data

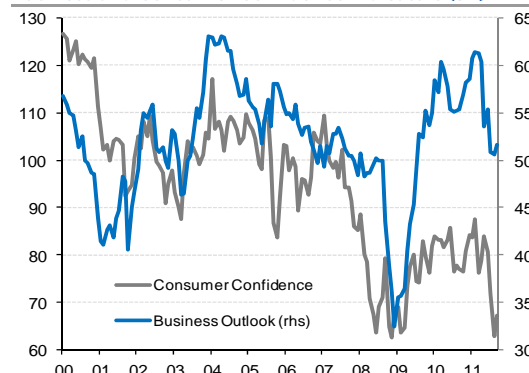
The Fed's October Beige Book indicates expanding activity in all 12 Districts, although at a more "modest" pace compared to previous months. In general, the report confirms a more uncertain business environment as suggested by mixed economic data in recent weeks. Many Districts reported increased uncertainties regarding the economic outlook, resulting in more conservative hiring and capital spending plans for the future. While boosts in tourism and auto sales led to increased consumer spending in most Districts, non-auto retail sales were generally flat. On the downside, weakness continued to prevail in the real estate market at both the residential and commercial level. Weak labor market conditions continue to keep wages low, however, some firms did offer higher wages when facing difficulty in finding appropriately skilled workers. Declines in commodity prices led to reduced cost pressures in most Districts, however, some producers reported increased pass-through costs for food and cotton-based goods. While the Fed has emphasized increased downside risks to growth, better-than-expected economic data as of late has reduced the likelihood of a double-dip recession.

Graph 1
Consumer Price Inflation (Annual % Change)



Source: US Bureau of Labor Statistics

Graph 2
Business and Consumer Confidence Indicators (SA)



Source: OECD

Week Ahead

Durable Goods Orders, Ex Auto (September, Wednesday 8:30 ET)

Forecast: 0.6%, 0.4%	Consensus: -0.9%, 0.4%	Previous: -0.1%, -0.1%
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Durable goods orders are expected to improve in September following a small MoM decline in August. Strength in the auto sector drove retail sales to the largest gain since February 2011, while consumer goods and gasoline sales helped boost the ex-auto figure. Aircraft producers have reported continued demand, however, orders may slow after two months of significant growth. Although regional manufacturing surveys continue to suggest slowdowns in the sector, the ISM index indicates some acceleration in activity.

Gross Domestic Product, Advance (3Q11, Thursday 8:30 ET)

Forecast: 2.2%	Consensus: 2.5%	Previous: 1.3%
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The advance estimate for 3Q11 GDP is expected to show improvements over last quarter despite prolonged weakness in economic activity. While the housing and manufacturing sectors continued to struggle, nonresidential investment likely strengthened. Also, personal consumption increased from 2Q11 despite historically-low levels of consumer confidence. Furthermore, the trade balance appears to be narrowing due to a boost in exports. Although the fiscal situation in mid-August left a sour mark in 3Q11, growth is likely to accelerate in line with our expectations for a better 2H11.

Personal Income and Outlays (September, Friday 8:30 ET)

Forecast: 0.2%, 0.5%	Consensus: 0.3%, 0.6%	Previous: -0.1%, 0.2%
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September is likely to be a better month for consumers, with personal income and spending expected to increase from August. The latest employment report indicated a rise in average earnings that should help personal income recover from last month's decline. On the consumption front, a boost in retail sales for the month suggests that consumers appear to be loosening their spending habits. Furthermore, consumer confidence indicators have edged up slightly from August and concerns over a deteriorating economy have fallen.

Employment Cost Index (3Q11, Friday 8:30 ET)

Forecast: 0.5%	Consensus: 0.6%	Previous: 0.7%
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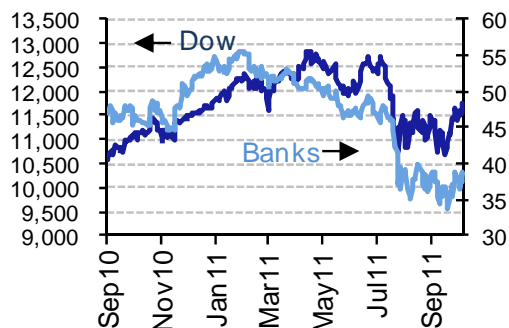
The Employment Cost Index is expected to increase in 3Q11 although at a slower pace than in 2Q11. Nonfarm payrolls and average earnings were little changed from last quarter, suggesting that the wage component of the index will remain relatively steady. Throughout the past year, benefits have been increasing far more quickly than wages as companies try to retain competent workers in order to expose themselves to less risk. Since benefits make up only 30% of total compensation costs, we expect the overall index to grow at a slightly slower pace than in the second quarter.

Market Impact

This week markets will focus on the GDP release and an improvement over 2Q will bring much-needed relief after months of weak economic reports. Worries of a double-dip recession have eased, however, a surprise to the downside could trigger another panic. Other data could indicate whether consumer activity and demand expectations have rebounded.

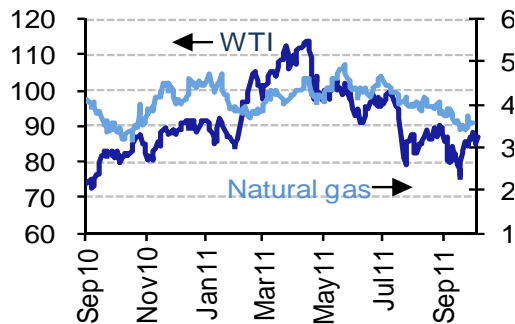
Financial Markets

Graph 3
Stocks (Index, KBW)



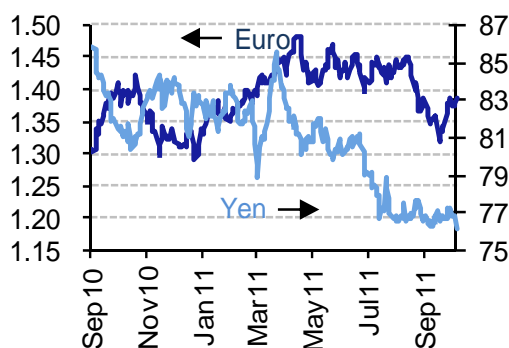
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



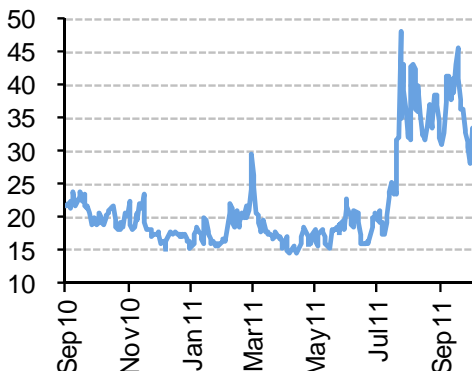
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



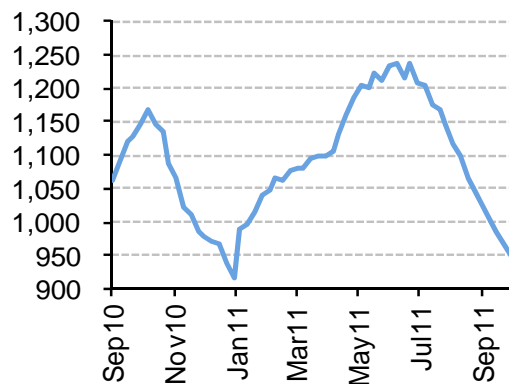
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



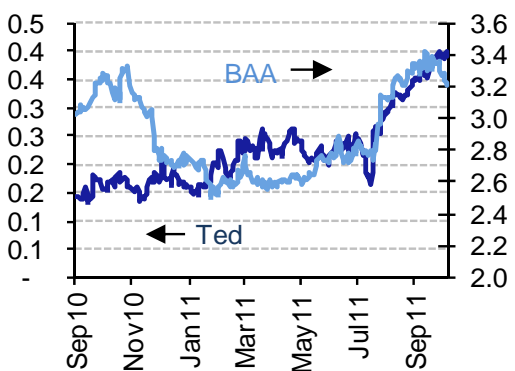
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

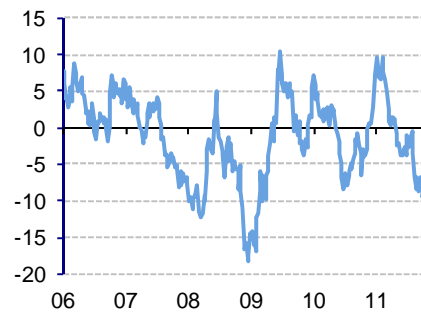
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

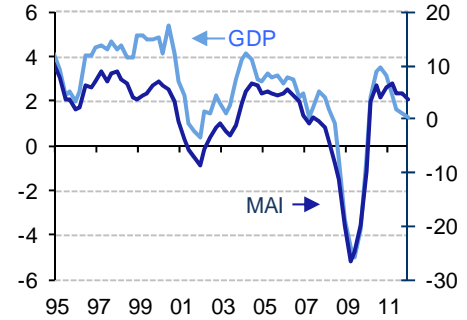
Economic Trends

Graph 9
BBVA US Weekly Activity Index
(3 month % change)



Source: BBVA Research

Graph 10
BBVA US Monthly Activity Index & Real Gross Domestic Product
(4Q % change)



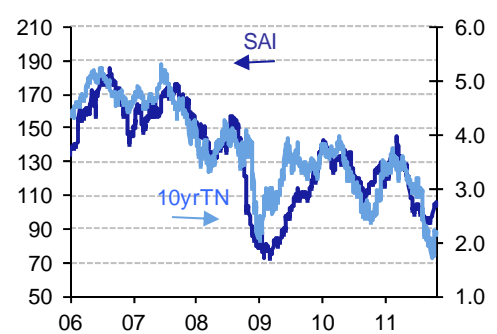
Source: BBVA Research & BEA

Graph 11
BBVA US Surprise Inflation Index
(Index 2009=100)



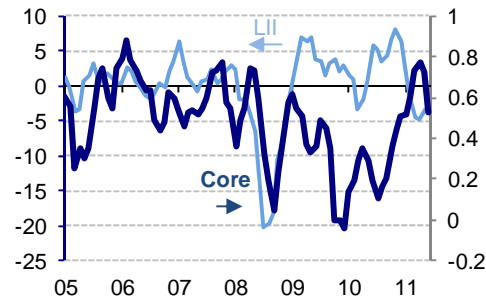
Source: BBVA Research

Graph 12
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



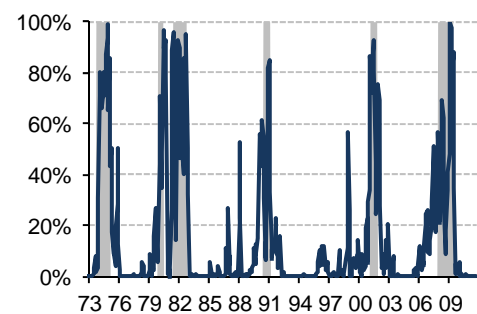
Source: Bloomberg & BBVA Research

Graph 13
BBVA US Leading Inflation Index & Core Inflation (QoQ % change)



Source: BLS & BBVA Research

Graph 14
BBVA US Recession Probability Model
(Recession episodes in shaded areas, %)



Source: BBVA Research

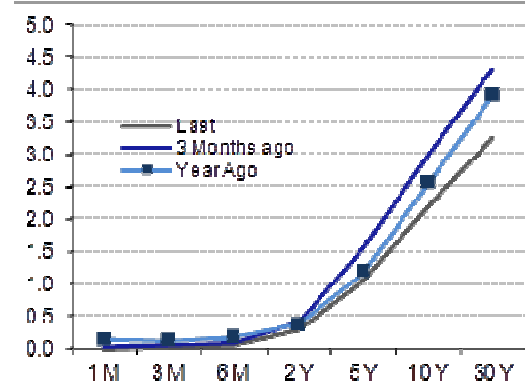
Yield Curve and Interest Rates

Table 1
Key Interest Rates, %

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.96	13.95	13.95	13.58
New Auto (36-months)	4.07	4.08	4.10	5.80
Heloc Loan 30K	5.52	5.50	5.49	5.46
30-year Fixed Mortgage *	4.11	4.12	4.09	4.21
Money Market	0.54	0.54	0.80	0.73
2-year CD	0.87	0.93	0.96	1.30
5-year CD	1.59	1.74	1.75	2.11

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US
Source: Bloomberg and BBVA Research

Graph 15
Treasury's Yield Curve, %



Source: Bloomberg

Quote of the Week

German Chancellor Angela Merkel
Dream On
18 October 2011

"Dreams that are taking hold again now that with this package everything will be solved and everything will be over on Monday won't be able to be fulfilled."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
24-Oct	Chicago Fed National Activity Index	SEPT	-0.10	-0.21	-0.43
25-Oct	S&P Case-Shiller HPI (YoY)	AUG	-4.30%	-3.60%	-4.11%
25-Oct	Consumer Confidence	OCT	49.00	46.50	45.40
26-Oct	Durable Goods Orders	SEPT	0.60%	-0.90%	-0.10%
26-Oct	Durable Goods Orders Ex Transportation	SEPT	0.40%	0.40%	-0.10%
26-Oct	New Home Sales	SEPT	300K	300K	295K
26-Oct	New Home Sales (MoM)	SEPT	1.70%	1.70%	-2.30%
27-Oct	GDP QoQ Annualized	3Q A	2.20%	2.50%	1.30%
27-Oct	Personal Consumption	3Q A	1.60%	1.90%	0.70%
27-Oct	GDP Price Index	3Q A	2.40%	2.40%	2.50%
27-Oct	Core PCE QoQ	3Q A	2.20%	2.20%	2.30%
27-Oct	Initial Jobless Claims	22-Oct	401K	400K	403K
27-Oct	Continuing Claims	15-Oct	3705K	3700K	3719K
27-Oct	Pending Home Sales (MoM)	SEPT	0.30%	0.10%	-1.20%
28-Oct	Personal Income	SEPT	0.20%	0.30%	-0.10%
28-Oct	Personal Spending	SEPT	0.50%	0.60%	0.20%
28-Oct	PCE Core (MoM)	SEPT	0.10%	0.10%	0.10%
28-Oct	PCE Core (YoY)	SEPT	1.70%	1.70%	1.60%
28-Oct	Employment Cost Index	3Q	0.50%	0.60%	0.70%
28-Oct	U. of Michigan Consumer Sentiment	OCT	58.50	58.00	57.50

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